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## Argentina

## Cotton and Products

## Annual

## 2004

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**Report Highlights:**

Argentine cotton production for Marketing Year (MY) 2004 (August 2004-July 2005) is estimated at 135,000 metric tons, higher than the past three crops. Producers are expected to expand planted area primarily because of good returns. With a stable domestic consumption, imports are forecast to drop to 15,000 tons, with Brazil and Paraguay as the main suppliers. Exports are projected to increase at 30,000 tons, with Latin American countries being the main destination.

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## Section I. Situation and Outlook

Argentine cotton exports for MY2004 (August 2004-July 2005) are projected at 30,000 metric tons, significantly higher than the past two crops, but still very low compared to the volume exported during the 1990s. Larger exports are the result of an increase in production, due to good returns in MY2003/04. Profitability is expected to continue in MY2004.

Due to the sharp reduction in export surpluses over the past several crops, Argentine shipments were directed primarily to South American destinations. Over 50 percent of cotton exports during calendar years 2001-03 went to Brazil, Chile and Peru. The balance was shipped primarily to Asia (Taiwan, Philippines, India and Thailand) and some to the European Union (EU) (Italy, Germany and Portugal). Most exports in MY2004 are expected to go to these same markets.

Traders indicate that exports for MY2004 will be made primarily of cotton harvested in 2005 (February-June). Some cotton of the MY2003 crop will probably be exported in the second part of 2004. Although supply and demand in MY2003 is quite tight, spinners are thought to have good stocks (3-4 months' use) of both imported and domestic product. Therefore, their demand has slowed down during the peak of the harvest, forcing prices to go down. If this situation continues, some gins will want/need to export some product. Exports are made primarily of the top and the low-end quality, leaving average grades for the local industry. One of the largest textile companies in the country is now owned by Brazilians, who also operate a company in Chile, and trade cotton among the countries of the Southern Cone.

In 2002, the Argentine Government (GOA), in order to come to grips with increased expenses, implemented export taxes ("retenciones"), setting the tax on cotton at 5 percent. The local cotton sector has tried to convince the GOA, so far at no avail, to eliminate the tax in order to help the recovery of production. It is doubtful this will happen, because other sectors would follow with similar requests. Please note that Argentine cotton exports benefit from a 2.7 percent rebate, partially negating the negative effect of the export tax. Please also note that in 2003, export taxes assessed on agricultural products generated revenues of close to US\$2 billion, which the GOA has used to support social and infrastructure projects.

Cotton imports for MY2004 are forecast at 15,000 tons, significantly lower than the previous two years, as a result of projected larger output and unchanged domestic consumption. These imports are expected to arrive in the country during the last semester of 2004. Almost all imports will come from the Brazilian state of Mato Grosso (located in the Center-West of Brazil). The Brazilian cotton has very good quality and uniformity, and has been well received by Argentine spinners. Some shipments will also arrive from neighboring Paraguay. Most imports are carried out by the largest local spinners, which buy mostly strict low middling grades.

Most traders believe that cotton from the United States has little chance to penetrate the Argentine market due to higher tariffs, freight costs, and price. Furthermore, some contacts opine that spinners have grown very accustomed to the Brazilian and Paraguayan product. Cotton imported from Mercosur countries (Mercosur is composed of Argentina, Uruguay, Paraguay, and Brazil) is duty free, while that of the United States and other origins faces a tariff of 7.5 percent. However, large textile companies, which export yarn and other products, can make use of the temporary import program, through which they do not pay the tariff as long as they export products within a year.

The recent ruling handed down by World Trade Organization's (WTO) dispute resolution panel against the U.S. cotton support program, which favored Brazil, is not expected to have an immediate impact on the market. However, the local agricultural sector is now more optimistic about the future WTO negotiations on agricultural subsidies.

Argentine cotton production for MY2004 is projected at 135,000 tons, the highest of the past three years. Good returns in the MY2003, due to fairly good prices and lint yields, and expected higher cost of production for soybeans in MY2004, should encourage medium and large producers to expand cotton area.

The Argentine cotton complex is operating with much excess capacity. As an example, in the mid 1990s, planted area was more than three times that which is expected for MY2004. Therefore, there are a significant number of gins, harvesters, and other equipment that are under-utilized. There is, in the main, little new investment, but leading producers continue to incorporate new technology in order to increase yields and lower costs.

The quality of the last two crops was very good, averaging between strict low middling and low middling grades. The main reason for this is that weather for both crops was dry. Producers are again using local seed varieties, which have been in use for decades, as the incorporation of some varieties from the U.S. did not turn out as expected. The use of Bt cottonseed has dropped, but local Round up-ready seed is gaining popularity, as ginning yields are much higher.

Cotton in Argentina is considered to be a "social" crop, as it is produced by many small farmers in northern provinces that have limited economic possibilities. These producers normally plant, on the average, five hectares, and the entire family does almost all the work, including harvesting. Therefore, as is the norm, post expects that provincial governments will provide some help to encourage cotton production. A few private entities have presented the GOA with some plans to expand cotton production. They propose the elimination or the postponement of taxes that affect the cotton industry. The GOA is studying the possibility of providing some help, but nothing has been decided yet.

## Section II. Statistical tables

PSD Table							
Country	Argentina						
Commodity	Cotton				(HECTARES)(MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2002		08/2003		08/2004	MM/YYYY
Area Planted	0	158000	0	264000	0	330000	(HECTARES)
Area Harvested	148000	148000	250000	250000	0	320000	(HECTARES)
Beginning Stocks	86873	13849	83389	16849	89050	29849	(MT)
Production	63141	65000	94711	100000	0	135000	(MT)
Imports	55303	55000	43545	38000	0	15000	(MT)
TOTAL SUPPLY	205317	133849	221645	154849	89050	179849	(MT)
Exports	5661	7000	10886	5000	0	30000	(MT)
USE Dom. Consumption	114306	108000	119750	118000	0	118000	(MT)
Loss Dom. Consumption	1960	2000	1960	2000	0	2000	(MT)
TOTAL Dom. Consumption	116266	110000	121710	120000	0	120000	(MT)
Ending Stocks	83389	16849	89050	29849	0	29849	(MT)
TOTAL DISTRIBUTION	205316	133849	221646	154849	0	179849	(MT)

### Section III. Narrative on Supply and Demand, Policy and Marketing

#### Production

Cotton planted area for MY2004 is projected to increase to 330,000 hectares, significantly higher than the previous year. The main reasons for this are: (a) good profitability in MY2003; (b) the competition of soybeans could diminish somewhat as its costs of production will increase considerably due to the appearance of soy rust and a significantly higher price for glyphosate, widely used in roundup-ready, no-till soybean production; (c) despite the higher cost of production for cotton, farmers' much better economic situation will also encourage producers to plant cotton, which has a higher return per hectare than soybeans; (d) medium sized producers, which used to rent land for soybeans, are finding it harder to compete with the high prices which large producers are paying, and will probably plant their own land, refocusing on cotton; (e) some farmers did not plant in MY2003/2004 the area they had initially targeted due to dry weather; (f) somewhat stronger support from the provincial governments directed to small producers; and (g) cotton in the province of Chaco, the principal growing area for cotton, has proved to be less riskier than soybeans, especially during dry seasons.

Leading producers are adopting, with very good success, the practice of planting in narrow furrows. This innovation is being embraced slowly by the leading growers. It is estimated that fewer than 10,000 hectares have been planted under this new system.

Planted area to cotton in Argentina is only estimated because there is a lack of thorough fieldwork. Based on the available numbers, most sources roughly calculate that the average yield of raw cotton is near 1.3 tons per hectare, with top producers well above 2 tons per hectare. The average ginning ratio is normally between 32-33 percent. Argentina's average quality is normally exemplified by low middling grades. However, due to dry weather in MY2002 and MY2003, both ginning ratios and lint quality have been higher.

Based on information recently released by the National Institute of Agricultural Technology (INTA), medium and large producers who use good technology, obtain much higher returns per hectare from cotton than from soybeans. The following table provides a comparison of production costs and income, but it does not include overhead costs (prices are in pesos per hectare – exchange rate is 2.95 pesos to the dollar):

	Cotton	Soybeans
<b>Yield (Tons/Hectare)</b>	2.2	2.6
<b>Gross Income</b>	2,376	1,742
<b>Production Cost</b>	480	355
<b>Harvest Cost</b>	299	174
<b>Marketing Cost</b>	191	294
<b>Gross Return</b>	<b>1,406</b>	<b>919</b>

Soybeans is the only crop which can compete with cotton in the cotton producing area, as return of other crops, such as corn, sunflower and sorghum is considerably lower. However, if the GOA approves Round-Up Ready Corn, a transgenic corn variety, corn will also be competitive with cotton.

With 85 percent of the harvest completed, cotton output for MY2003 is now estimated higher at 100,000 tons, although some sources state that it could even be somewhat larger. After the very dry summer, rainfall returned to normal levels in March, and cotton plants reacted more than favorably. In many cases lint yields per hectare were higher than

expected, as dry weather made most bolls open and reduced the incidence of rotten ones. In general, there was also a low incidence of insects. More than 10,000 hectares were lost during this season due, primarily, to drought. Even in the province Santiago del Estero, where there is an area of about 20,000 hectares under irrigation, producers could not obtain the necessary amount of water.

### **Consumption**

Cotton domestic consumption for MY2004 is projected at 120,000 tons, the same as in MY2003. Although imports of products have recently increased, the local production of textiles remains strong. Sales have increased due to import substitution (prior to the sharp devaluation of the Argentine peso in 2002, about 50 percent of textile sales were imported) and to a recovering economy. Most of the textiles produced locally are sold domestically, while only a small portion, primarily yarn, is exported. Exports slowed down as the peso strengthened during 2003.

Argentina is currently importing large volumes of denim from Brazil, as well as products that are not manufactured locally, such as very fine quality clothes or inexpensive ones.

### **Trade**

See Section I